

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6571**

**BILL NUMBER:** HB 1368

**NOTE PREPARED:** Jan 30, 2006

**BILL AMENDED:**

**SUBJECT:** PERF and TRF Cost-of-Living Adjustments.

**FIRST AUTHOR:** Rep. Neese

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides cost-of-living adjustments (COLAs) for certain members, survivors, and beneficiaries of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) in 2007.

**Effective Date:** July 1, 2006.

**Explanation of State Expenditures:** *Teachers' Retirement Fund COLA:* The bill provides a one-time, permanent COLA for TRF members, survivors, and beneficiaries according to the following:

- 2% for members retired or disabled before July 2, 1991.
- 1.0% for members retired or disabled after July 1, 1991 and before July 2, 2004.
- 0% for members retired after July 1, 2004.

Fund	Increase in UAL*	Estimated Increase in Projected Benefit Payments		
	As of 6/30/05	FY 2007	FY 2008	FY 2009
Pre-1996 Fund	\$47,527,719	\$3,096,801	\$5,998,102	\$5,792,325
1996 Fund	\$1,562,104	\$ 88,313	\$ 171,072	\$ 166,128
Total	\$49,089,823	\$3,185,114	\$6,169,174	\$5,958,453
* UAL is the Unfunded Accrued Liability.				

The fund affected for the Pre-1996 Fund is the state General Fund.

*Public Employees' Retirement COLA:*

[Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

*Summary of State Fiscal Impact for PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF retired or disabled before July 2, 1991, and a 1.5% COLA for members, survivors, and beneficiaries of PERF retired or disabled after July 1, 1991, and before January 1, 2006. The COLA is effective for payments after December 31, 2006.

Current statute has no provision for a COLA in 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$20.617 M. This represents an additional annual funding requirement of about \$1.582 M (about \$0.791 M for FY 2007 and \$1.582 M in fiscal years thereafter, representing approximately a 0.1% increase in annual funding as a percent of payroll).

*Summary of State Budget Impact for PERF COLA:* Although a COLA for 2007 is not provided in current statute, PERF is currently calculating the contribution requirement for the state *in anticipation of passage* of a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill over the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$7.734 M. This represents an additional cost of about \$295,000 in FY 2007, and \$590,000 in years thereafter, representing approximately 0.037% of payroll.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Teachers' Retirement Fund COLA:* The 1996 Fund is funded with a level percent of payroll contribution, which is currently 7%. It is unlikely that this proposal will change that percent. (See also *Explanation of State Expenditures* for projected benefit payments from the 1996 Fund.)

*Public Employees' Retirement COLA:*

*Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF retired or disabled before July 2, 1991, and a 1.5% COLA for members, survivors, and beneficiaries of PERF retired or disabled after July 1, 1991, and before January 1, 2006. Current statute has no provision for a COLA in CY 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$25.226 M. This would result in an additional annual funding requirement of about \$1.942 M (representing approximately 0.075% of payroll) over what is provided for in current statute.

*Summary of Local Budget Impact of PERF COLA:* Although a COLA for 2007 is not provided in current statute, PERF funding requirements are currently calculated *in anticipation of passage* of a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill over the COLA

assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$9.360 M. This represents an additional cost of \$0.72 M in CY 2007, and years thereafter (representing approximately 0.028% of payroll).

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund; Teachers' Retirement Fund.

**Local Agencies Affected:** Municipalities and School Corporations.

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.